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PP RUEHAG RUEHAST RUEHDA RUEHDF RUEHFL RUEHKW RUEHLA RUEHLN RUEHLZ
RUEHPOD RUEHROV RUEHSR RUEHVK RUEHYG
DE RUEHIK #0051/01 1771548
ZNR UUUUU ZZH
P 251548Z JUN 08
FM AMCONSUL THESSALONIKI
TO RUEHC/SECSTATE WASHDC PRIORITY 0350
INFO RUEHTH/AMEMBASSY ATHENS PRIORITY 0258
RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEHIK/AMCONSUL THESSALONIKI 0391

UNCLAS SECTION 01 OF 02 THESSALONIKI 000051

SENSITIVE
SIPDIS

DEPT FOR EUR/SE

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [PGOV](#) [SOCI](#) [CH](#) [HK](#) [GR](#)

SUBJECT: DESPITE CONTINUING PROTESTS, THESSALONIKI PORT'S
PRIVITIZATION PROCESS NEARS COMPLETION

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¶1. (SBU) SUMMARY: A prolonged and controversial competition to identify a private company to upgrade and run the container terminal at the Port of Thessaloniki is nearing completion. Striking port workers have delayed the privatization process, which the Greek government hopes will modernize the port and help develop Thessaloniki as a regional trade center. Three companies have submitted closed bids for the terminal, Chinese COSCO, Hong Kong-based Hutchison and Dubai Ports World. With labor protests subsiding, Port officials expect to complete the review of bidder's supporting documentation, open the bids and select a winner as early as mid-July. Media speculate Dubai Ports is the favorite, while a senior Port manager told post Hutchison is the best candidate. The port of Thessaloniki is the second largest in Greece with a market value of 354m (\$552.5m). END SUMMARY

¶2. (SBU) After long delays and costly worker protests, the tender process for identifying a private company to upgrade and run the container terminal at the Port of Thessaloniki is nearing completion. A senior Port manager told post on June 22 that officials handling the tender are likely to finish reviewing supporting documentation submitted by the three bidders within the next two weeks, after which the actual bids will be opened. The GoG hopes to announce the winning bidder by mid-July. Several factors could delay the process, however, including lawsuits bidders might bring against the winning bidder. Each of the three bidders has already accused the others of numerous irregularities and threatened litigation.

¶3. (U) The three remaining bidders (from the five that originally expressed interest in the GoG's January 2008 international call for tenders) are: China's COSCO Pacific; Hong-Kong based Hutchison Port Holdings together with Greek pharmaceutical group Alapis, and finally, the joint venture between Dubai Ports World and Greece's Piraeus Bank. The successful bidder will be expected to upgrade and run the currently state operated facilities for a set period of thirty (30) years. The GoG hopes that by the end of this period, the port will have developed into a major regional hub.

¶4. (SBU) According to its website, China Ocean Shipping (Group) Company Pacific (COSCO) is a \$17 billion (2007 revenues) corporation that specializes in shipping and modern logistics, serves as a shipping agency, and provides a range of related services. It operates a fleet of around 600 vessels, with a traffic volume of more than 300 million tons. It is active in around 160 countries and employs a total of 80,000 people. [Note: COSCO recently won a similar bid for container terminal operations at Piraeus, Greece's largest port. According to press reports, COSCO will pay approximately 4.3 billion euros for a 35 year contract to upgrade and manage the port's two main

cargo terminals. The GoG would prefer a different operator for Thessaloniki, for diversification, according to Port officials.]

Dubai Ports World's network of 44 terminals and 13 new developments covers 28 countries. Its work force exceeds 30,000 people. In 2007, the company handled more than 43.3 million TEU. Local media speculate that Dubai is the front-runner. Hutchison Port Holdings is controlled by Hong-Kong based Hutchison Whampoa Ltd, which is also active in, among other areas, energy and telecommunications. HPH claims to be "the world's leading port investor, developer and operator" with interests in a total of 292 berths in 47 ports. In 2007 it managed 47 facilities in 24 countries and handled a combined throughput of 66.3 million TEU worldwide. A senior Port official told us that based on available information the GoG would prefer HPH over the other bidders.

15. (SBU) The decision by the GoG for the long-term leasing of the port's cargo station has provoked strong reactions. When the bill was brought before Parliament in March, the opposition spoke of a "scandalous give-away of national assets." The bill was eventually ratified with voting in the parliament along straight party lines. Trade unions have maintained strikes and work slowdowns for the last five months, protesting against the plans that they believe will require substantial lay-offs. Port officials claim workers fear private management will require them to work more and give up under-the-table payments they routinely extract from port clients. Officials say patient negotiations and generous concessions to workers have convinced a large number of workers to accept the privatization. Currently, the majority of dock workers say they want to resume their duties, but their administrative colleagues disagree and have prevented them from doing so.

16. (U) According to a survey conducted by the Northern Greece Chamber of Commerce, the lengthy mobilization of port workers has resulted in delays for 96% of businesses surveyed, lost clients for 52% and reduced production for 27%. It is estimated

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that financial losses for the port exceed 1 million per month. The Federation of Industries of Northern Greece has demanded compensation and threatened legal action against the Port Authority for ineffective handling of the case.

17. (SBU) The port of Thessaloniki is vital to the economy of northern Greece and strategically linked to fast-growing markets in the Balkans and the wider area of the Eastern Mediterranean and the Black Sea. Thessaloniki officials have long dreamed of reviving the city's former exalted status as a regional hub and "gateway to the Balkans," but port development has been hampered by inefficient state operation and labor unions with deeply entrenched interests in the status quo. The port is a key link in the supply chain for U.S. and European troops in Kosovo. At present, the port handles over 16,000,000 tons of cargo annually and 370,000 TEU containers. Thessaloniki's port is the second largest in Greece, behind that of Piraeus, and has a market value of 354m (\$552.5m.)

16. (SBU) COMMENT: Privatization of the cargo station operations will represent a significant step forward in the modernization of vital national infrastructure and in the commercial development of northern Greece. The privatization will also provide tangible proof of GoG determination to implement badly needed reforms of state operations and to shrink the size of the public sector despite strong opposition from organized labor. While supportive of the privatization, local businesses are furious at the government's perceived lack of preparation and hasty launch of the tender process, which businesses blame for the robust labor protests and resulting commercial losses. The losses will continue to accumulate, albeit at a slower rate since the first cracks in the strikers' front have started to appear. The sooner the troubled process declares a winner, the better for all. END COMMENT.
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